



# FRANKLIN TEMPLETON INVESTMENTS

## Franklin High Income Fund—Advisor Class

High Yield  
Fixed Income  
September 30, 2018

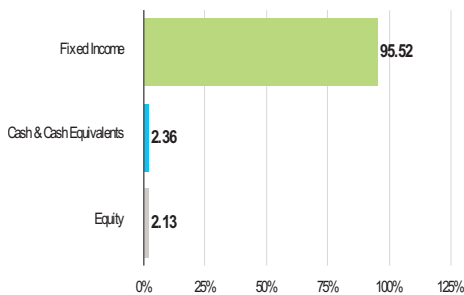
### Product Profile

#### Product Details<sup>1</sup>

Fund Assets	\$3,264,165,900.53
Fund Inception Date	12/31/1969
Number of Securities Including Cash	263
NASDAQ Symbol	FVHIX
Maximum Sales Charge	0.00
Investment Style	High Yield
Benchmark	Credit Suisse High Yield Index
Lipper Classification	High Yield Funds
Morningstar Category™	High Yield Bond
Dividend Frequency	Monthly, on or near the last business day

#### Asset Allocation<sup>2</sup>

Percent of Total



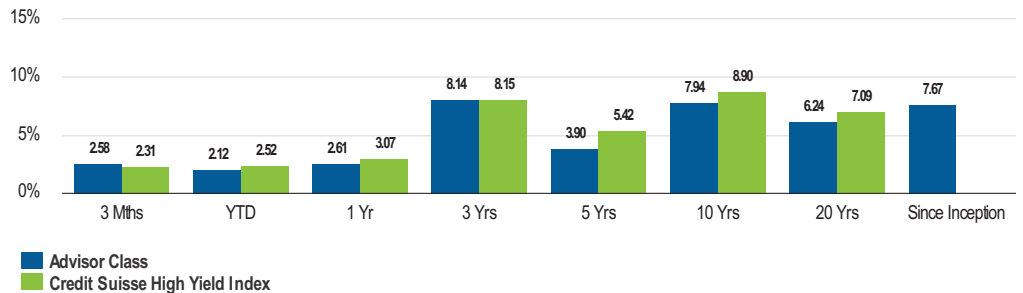
#### Fund Description

The fund seeks a high level of current income, with a secondary focus on capital appreciation, by investing predominantly in higher-yielding, lower-rated corporate bonds.

#### Performance Data<sup>3,4</sup>

##### Average Annual Total Returns<sup>5</sup> (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception (12/31/1969)
Advisor Class	2.58	2.12	2.61	8.14	3.90	7.94	6.24	7.67
Credit Suisse High Yield Index	2.31	2.52	3.07	8.15	5.42	8.90	7.09	-



**Total Annual Operating Expenses**—With Waiver: 0.6% Without Waiver: 0.61%

**30-Day Standardized Yield<sup>6</sup>**—With Waiver: 5.73% Without Waiver: 5.71%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 09/30/2019. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

#### Calendar Year Returns (%)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Advisor Class	6.85	19.41	-10.06	-0.25	7.79	15.26	4.71	13.86	44.51	-22.43
Credit Suisse High Yield Index	7.03	18.39	-4.90	1.86	7.53	14.71	5.47	14.42	54.22	-26.17

1. All holdings are subject to change.

2. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

4. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

5. Periods shorter than one year are shown as cumulative total returns.

6. The fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

Portfolio Manager Insight<sup>7</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Technology issuers	Underweight in retail industry	Ratings-quality tilt in energy industry	—
	Media cable issuers	Overweight in wireless industry	Ratings-quality tilt in paper industry	—
	Healthcare issuers	Overweight in media cable industry	Ratings-quality tilt in finance industry	—
HURT	Metals and mining issuers	Underweight in supermarkets industry	Ratings-quality tilt in packaging industry	Yield-curve positioning
	Energy issuers	Overweight in utility industry	—	—
	Wireless issuers	Underweight in transportation industry	—	—

- During the quarter, the fund's overweight exposures to the media cable and healthcare industries contributed to relative results, as these segments were among the best performing sectors compared to the broad high-yield (HY) market.
- Amid rising energy prices during the quarter, our ratings-quality tilt in the energy industry contributed to relative results, although our security selection in the industry detracted from performance.
- Although the telecom industry was a top performing sector compared to the broad HY market, our security selection in the industry detracted from relative results.

## Outlook &amp; Strategy

- As market activities resumed in September after the US Labor Day holiday, HY investors expected high levels of new issuance, including large amounts of transactions related to leveraged buyouts (LBOs). Although new-issue volume trended higher compared with August, the level of new issuance did not meet expectations.
- One driver for the lower-than-anticipated volume was a continuation of issuers turning to the floating-rate loan market instead of the HY market. Another contributing factor was the deferral of some expected merger and acquisition (M&A) transactions. As investors were keen to put cash to work amidst the persistent supply/demand mismatch, many HY managers overlooked the very weak covenants offered by the LBO transactions that came to the HY market during the month—a reflection of general deterioration in credit quality for sponsored deals.
- Despite these instances of weakened new-issue credit quality, we maintain our view that overall HY corporate fundamentals remain solid as earnings before interest, depreciation, taxes and amortization margins have continued to trend upward with declining HY leverage and defaults. Furthermore, we remain committed to our credit selection discipline and avoiding deals that do not offer adequate investor protection.
- We maintain our outlook that the short-term risk to the HY market for the remainder of the year could tilt more towards technically driven conditions, rather than fundamentals. As technical conditions have remained favorable mostly due to limited HY supply, should HY supply noticeably pick up during the remainder of the year due to possible LBO and M&A activities, valuations could be pressured.
- We also believe that US mid-term elections in November could pressure markets as investors digest implications from election results. However, absent UST rate movements that are beyond market consensus expectations or other market surprises, as long as technical conditions do not meaningfully reverse course, we believe positive HY fundamentals can continue and spreads could trend even tighter.

7. The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

Portfolio Characteristics<sup>8,9,10,11</sup>

	Portfolio	Credit Suisse High Yield Index
Average Duration	3.80 Yrs	3.69 Yrs
Average Weighted Maturity	4.78 Yrs	4.83 Yrs
Annual Turnover Ratio (05/31/2018)	23.33%	-

8. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

9. Average Duration and Average Weighted Maturity reflect certain derivatives held in the portfolio (or their underlying reference assets).

10. Turnover Ratio is as of the fund's fiscal year-end.

11. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Portfolio Diversification

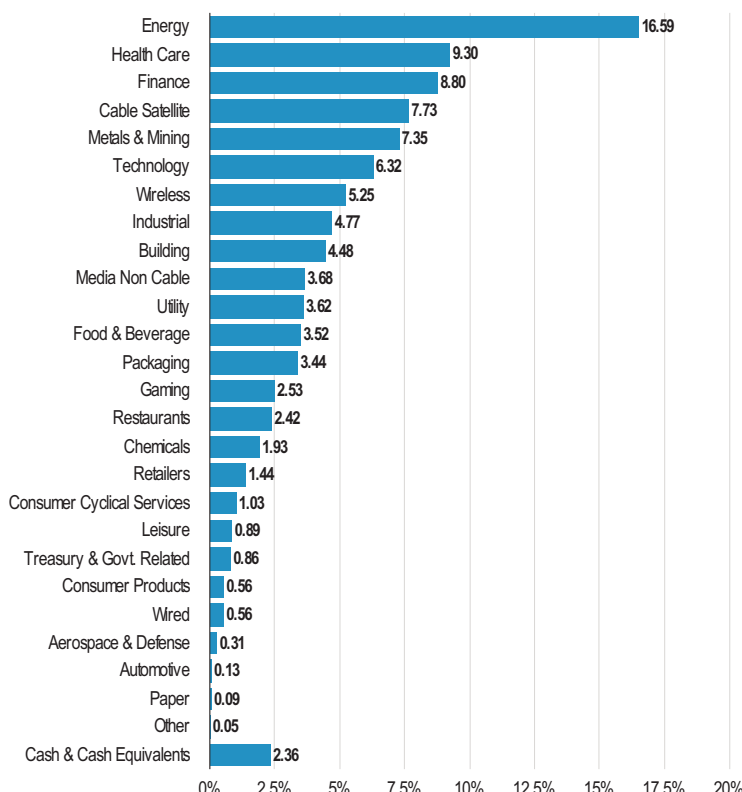
Top Ten Holdings<sup>12</sup>

Percent of Total

Top Holdings	%
NAVIENT CORP	1.91
VALEANT PHARMACEUTICALS INT	1.85
CSC HOLDINGS LLC	1.52
SPRINT COMMUNICATIONS INC	1.48
CLEARWAY ENERGY OPERATING LLC	1.40
CCO HOLDINGS LLC / CCO HOLDING	1.38
UNITED RENTALS NORTH AMERICA I	1.31
T-MOBILE USA INC	1.28
HCA INC	1.26
DISH DBS CORP	1.24

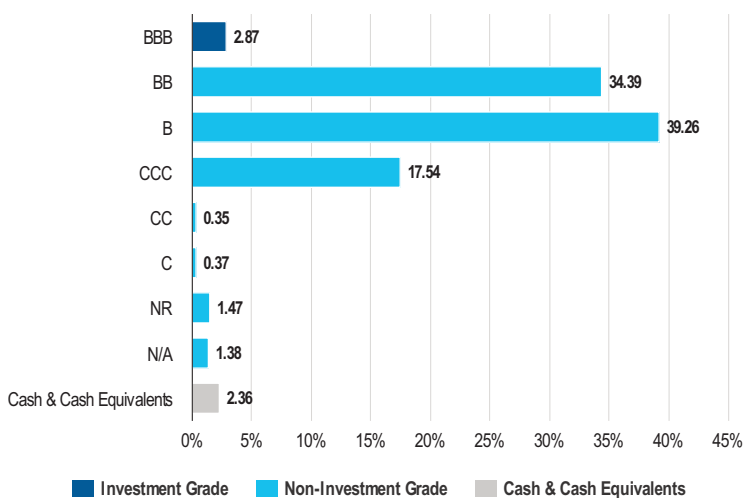
Sector Allocation<sup>13</sup>

Percent of Total



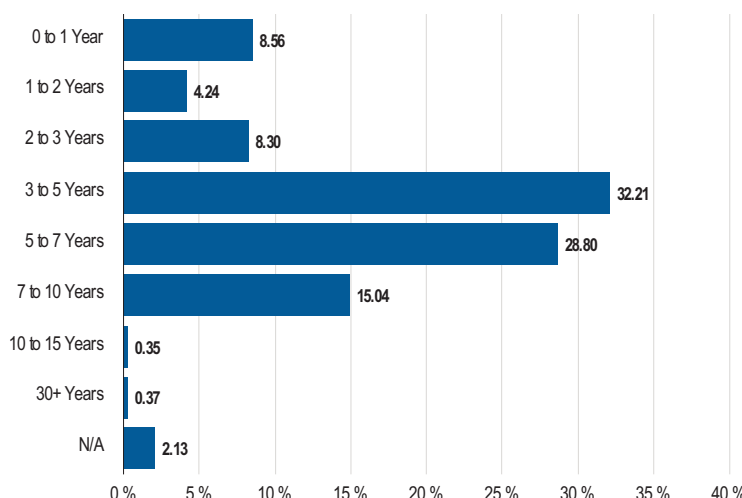
Credit Ratings Allocation<sup>14</sup>

Percent of Total



Maturity Allocation<sup>15</sup>

Percent of Fixed Income



12. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

13,15. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

14. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ("NRSRO"), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. If listed, the NR category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated. Derivatives are excluded from this breakdown. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

## Supplemental Performance Statistics

### Supplemental Risk Statistics<sup>16,17</sup>

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	6.02	6.33	9.53
Tracking Error (%)	1.70	1.91	2.02
Information Ratio	-0.01	-0.79	-0.48
Beta	1.18	1.23	1.00
Sharpe Ratio	1.21	0.54	0.80

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## Investment Philosophy

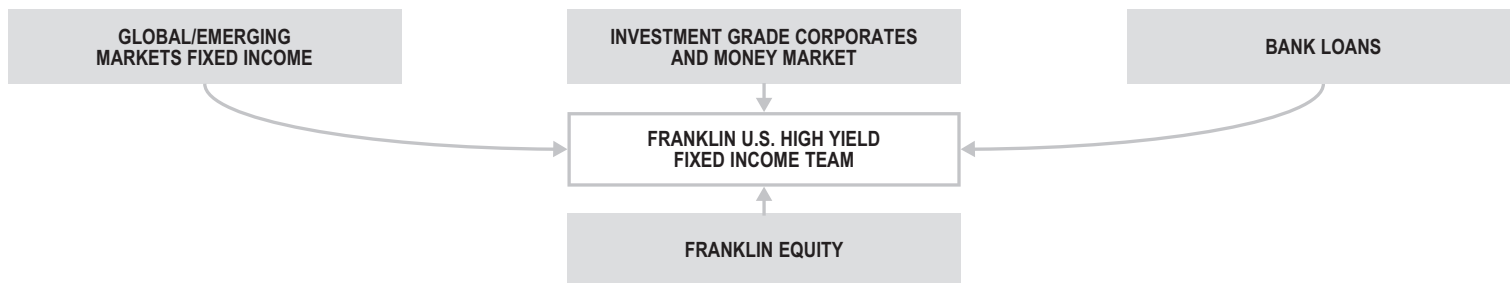
We believe that superior high-yield returns are best sought through the disciplined application of a research-based approach that capitalizes on inefficiencies across the high-yield market. Through diligent bottom-up research, we seek to identify compelling total return opportunities with the potential to add value over a three- to five-year horizon.

## Investment Process

- **Fundamental Analysis:** Conduct independent, bottom-up analysis focusing on critical factors that affect a company's long-term performance, such as financial structure, cash flow and earnings prospects, products, market share and strategic positioning, as well as material ESG factors
- **Long-Term Outlook:** Analyze securities whose projected return over three to five years may surpass the risk of adverse price movements or default
- **Seek Valuation Inefficiencies:** Opportunistically invest in companies in sectors that are infrequently followed or are out of favor with the marketplace
- **Disciplined Approach:** Adhere to long-term strategy through changing market environments, supported by separate in-house risk management and quantitative research groups

## Integrated Research Approach

- High Yield Team leverages the insights of other fixed income and equity investment professionals throughout the firm.



## Investment Team

Portfolio Manager	Years with Firm	Years Experience
Christopher J. Molumph, CFA, EVP/CIO Head of U.S. Fixed Income	30	31
Glenn Voyles, CFA, SVP/Director of Portfolio Management, Corporate Credit	25	25

### Additional Resources

Corporates - High Yield	Corporates - Investment Grade	Quantitative
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**Average Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

**Average Weighted Maturity:** An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

**Beta:** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

16. Beta, Information Ratio and Tracking Error information are measured against the Credit Suisse High Yield Index.

17. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

**Information Ratio:** In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

**Sharpe Ratio:** To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

**Standard Deviation:** A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

**Tracking Error:** Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

**What Are The Risks?**

All investments involve risks, including possible loss of principal. The risks associated with higher-yielding, lower-rated securities include higher risk of default and loss of principal. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. In addition, interest rate movements will affect the fund's share price and yield. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Investment in foreign securities also involves special risks, including currency fluctuations, and political and economic uncertainty. These and other risk considerations are discussed in the fund's prospectus.

**Important Legal Information**

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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3. Effective 12/31/1996, the fund began offering Advisor Class Shares. For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A1 performance, excluding the effect of Class A1's maximum initial sales charge but reflecting the effect of the Class A1 Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.



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INVESTMENTS**

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